FIRST AMERICAN FUNDS

Quarterly Portfolio Manager Commentary January 2018

First American Money Market Funds

What market conditions had a direct impact on the bond market this quarter?

2017 ended with an eventful and upbeat fourth quarter. Sweeping tax legislation was signed into law slashing corporate tax rates, doubling the standard deduction and limiting state and local tax deductions for individuals. For its part, the Federal Reserve (Fed) increased benchmark rates 25 basis points (bps), began the gradual wind-down of its balance sheet and saw Jerome Powell move toward confirmation as the new Fed Chairman beginning at the January 31, 2018 meeting.

Economic Activity – In the quarter, the U.S. economy reflected real strength and investor optimism drove the S&P and NASDAQ indexes up over 6%. The third quarter's U.S. GDP 3.2% growth rate beat initial estimates and provided momentum for an expected 3+% growth rate for the fourth quarter. Employment conditions – a consistent strength of this economy – continued to improve with Non-farm Payrolls adding 611,000 jobs in the quarter and a healthy 2.055 million for all of 2017. The U3 and U6 Unemployment Rates continued to decline, ending the year at 4.1% and 8.1%, respectively. Year-end ISM Manufacturing's robust 59.7 reading was the third highest over the past 13 years. December's ISM Non-Manufacturing reading of 55.9 missed estimates, but still reflected solid expansion for the largest sector of the economy. Entering 2018, consumer confidence and spending will likely receive a boost after scores of large employers announced plans to utilize part of their tax cut windfall to offer higher wages and / or cash bonuses to their employees. Despite the abundance of positive growth data, inflation indicators remained stubbornly subdued. Average Hourly Earnings – a widely followed indicator of future inflation pressures – rose a benign 2.5% year-over-year (yoy) in December, defying analyst expectations and high employment levels. November's Core Personal Consumption Expenditure Index rose 1.50% yoy, higher than August's two-year low reading of 1.30% but still noticeably below the Fed's 2.0% target. Given the consistent strength in employment conditions, additional stimulation from the tax cuts and a noticeable lack of broad sector bubbles in the economy, the risk of a near term recession is low.

Credit Markets – Credit spreads continued to grind tighter, albeit at a slightly slower pace vs. previous quarters. The ICE BofA Merrill Lynch (ICE BAML) 1-5 Year AAA-A U.S. Corporates & Yankees Index's option-adjusted spread tightened from 45 bps to 41 bps during the quarter. Low market volatility, muted negative rating activity, positive supply / demand dynamics and the market's overall risk-on bias continued to support credit and spread product. The deceleration of spread compression is most likely due to the historically rich levels currently priced into bond spreads, which leaves little room for further tightening.

ICE BofA Merrill Lynch Index	Q4 2017 Relative Perfomance*
1-3 Year AAA-A U.S. Corporates and All Yankees	-0.086%
1-3 Year U.S. Treasury	-0.250%

*Corporate index outperformed the Treasury index by 16.4 bps in the quarter

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The ICE BAML BBB U.S. Corporates & Yankees Index outperformed the AAA-A index by 11.7 bps in the 1-3 year space, continuing a general trend of lower-rated credit outperforming its higher-rated counterparts. Lower-rated issuers typically outperform in low volatility / solid growth environments, but are also more sensitive to financial market stress.

ICE BofA Merrill Lynch Index	Duration	Q4 2017 Relative Performance*
1-3 Year U.S. Treasury	~1.86 years	-0.250%
1-5 Year U.S. Treasury	~2.66 years	-0.384%

*Short index outperformed the long index by 13.4 bps in the quarter

Driven by stronger economic data and a Fed rate increase, short-term U.S. Treasury yields rose and the yield curve flattened during the quarter with one-year yields rising a hefty 44.2 bps and five-year yields rising 27.0 bps. For the year, the one- to five-year U.S. Treasury spread fell to 47.4 bps from 111.6 bps. Despite the relatively large magnitude of interest rate movement, the increase in yields was both orderly and uniform with each month in the quarter contributing to the overall increase.

Monetary Policy – As expected, the Fed raised benchmark rates 25 bps at the December 13th meeting. The Fed Dot Plot remained unchanged with policymakers forecasting three additional 25 bp rate hikes in 2018. Minutes from the December meeting suggested most members supported the Fed's gradual rate hike path, which can be reasonably translated into an every other meeting schedule for further hikes. Federal Open Market Committee (FOMC) participants acknowledged the flattening of the yield curve as a risk worth monitoring, but not necessarily a deterrent to additional rate hikes. The Fed began tapering the principal re-investments of maturities and mortgage paydowns in its portfolio. The Fed reduced its purchases by $10 billion per month in the quarter and will gradually increase the amount quarterly until reaching a maximum of $50 billion per month by the end of 2018. While Jerome Powell's ascension as the next Fed Chairman will provide continuity to Fed policy, the FOMC will see a dramatic change to its make-up in 2018. Including the vacant Vice Chair slot, there are presently four open seats on the Board of Governors. New York Fed President Dudley has also announced his intention to retire in mid-2018, creating another opening for a permanent voting participant. Further, Fed Presidents Kashkari and Evans – currently the most dovish voting members – move off of the voting rotation in 2018. On the margin, the turnover in FOMC voting membership appears to trend more hawkish and rules-based vs. previous committees.

Fiscal Policy – The Republican Congress and the Trump Administration passed the most sweeping tax reform package since 1986 without a single Democrat vote. The centerpiece of the plan was the cut in the corporate tax rate from 35% to 21%, which should boost corporate cash flow and after-tax earnings. The legislation reaped some immediate benefits after several employers utilized the opportunity to announce bonus programs for employees and minimum wage increases for more entry level positions. Much of the stock market rally can be attributed to the tax changes, as analysts raised earnings estimates on lower company tax bills. While most individuals should see some form of tax relief, the benefits will not be evenly distributed. Limitations on the deductions for state and local taxes disproportionally impacted traditionally Democratic states – such as New York and California – and further cemented resentment between the two parties. This disharmony will need to be overcome in the beginning of 2018 in order for Congress to pass legislation increasing the debt ceiling and avoiding a shutdown of the federal government.

What were the major factors influencing money market funds this quarter?

During the fourth quarter, the market's attention was focused on President Trump's foreign and domestic policy discussions, the expected December Fed rate hike and any indications from Janet Yellen and newly-appointed Fed Chair, Jerome Powell, regarding the future of monetary policy. By the end of the quarter, one of President Trump's main economic policies was put in motion (the new tax plan), the market easily absorbed the third rate hike of 2017 (bringing the fed funds range to 1.25% - 1.50%) and the market set a hawkish tone for 2018 through fed funds futures. The higher rates and more aggressive rate expectations for 2018 presented higher yields which flowed through to money market fund investors.

First American Institutional Prime Obligations Fund
Post reform, the First American Institutional Prime Obligations Fund remains a much smaller fund in a much smaller universe. However, shareholders have adjusted well to the new floating net asset value (NAV) landscape and the First American Institutional Prime Obligations Fund has found a solid shareholder base. With comfort around the fund's base size, management was able to invest accordingly, seeking to take advantage of the investment environment. The

fund continued to ladder fixed-rate securities in the 60- to 90-day range and six- to nine-month floating-rate instruments. Throughout the quarter, the fund was able to exploit the steepening of the shortest part of the yield curve, with elevated fixed rates in the 60- to 90-day range, which were a result of year-end balance sheet pressure and had expectations of future rate hikes priced in. In addition, floating-rate securities in prime portfolios continued to add value, as the coupons reset off rising London Interbank Offered Rate (LIBOR) levels. By the end of the fourth quarter, three-month LIBOR rose to 1.694% and one-month LIBOR rose to 1.564%. With the credit environment stable, our main investment objective was to continue to enhance portfolio yield while judiciously extending the portfolio weighted average maturity (WAM) and weighted average life (WAL) in ways that minimized potential NAV volatility based on our credit, economic and interest rate outlook.

First American Retail Prime Obligations Fund

Similar to the institutional prime universe, the First American Retail Prime Obligations Fund continued with its core strategy to ladder in shorter fixed-rate securities in the 60- to 120-day range and longer term floating-rate instruments in the six-month to one-year range. By the end of the fourth quarter fund yields were on the rise, reflecting the increase in three- and one-month LIBOR to 1.694% and 1.564%, respectively. Due to the stable NAV and predictable nature of the retail shareholder base, portfolio management was able to capitalize on the rising interest rate environment reflected in LIBOR yields. The investment environment for prime funds remained attractive and we believe yields will be sustainable, making the sector an attractive short-term cash option for retail investors.

First American Government Obligations Fund

Government funds continued to hold the majority of cash that migrated as a result of money market fund reform. Yield compression in agency products persisted as basic supply and demand dynamics impacted prices. The Fed’s Reverse Repo Program (RRP) remained an important outlet for the influx of cash and a mechanism for rate control. We continued the purchase of Treasury and agency securities with maturities as long as two years. We found value in three- to nine-month fixed-rate securities that made sense within our anticipated pace of Fed tightening. We also capitalized on opportunities to purchase floating-rate securities, maturing well into 2019. We believe that floating-rate securities will perform well, as we expect LIBOR to remain elevated relative to the RRP and government securities, due to lighter demand in short bank and corporate debt coupled with higher overall interest rate expectations. We will seek to add value and continue to employ this strategy as the market and portfolio metrics allow.

First American Treasury Obligations and U.S. Treasury Money Market Funds

Treasury funds experienced a similar investment environment to government funds. Treasury floating-rate note spreads, while compressing, were still positive and wide enough to offset the risk of a market flight to Treasury bills and remained an attractive addition to Treasury portfolios vs. overnight repo. In addition, we added economic value by purchasing fixed-rate term securities within 2a-7 guidelines, with yields that incorporated our interest rate forecast. Because Treasury portfolios are the most dependent on interest rate increases, anticipated Fed movement continued to have the largest impact on fund management decisions and overall yields.

First American Retail Tax Free Obligations Fund

Provisions in the tax reform bill, eliminating tax-exempt market access for many issuers going forward, led to a surge in supply during December. Market dynamics had a considerable impact on the front end of the municipal yield curve, as many investors sold variable-rate demand notes (VRDNs) and other short-term muni holdings to finance these new purchases. SIFMA resets at year end were approximately 75 bps higher vs. the beginning of the quarter. The fund was well positioned for this environment, with more than 90% of its holdings in variable-rate securities and a short, 13-day WAM going into December. This flexibility allowed us to take advantage of several attractive opportunities to add securities in the three- to ten- month area. We believe these purchases are likely to help support the fund’s yield, as we expect yields on VRDNs may decline over the coming quarter.

What near-term considerations will affect fund management?

In the coming quarters, we anticipate yields on non-government debt to remain elevated relative to government securities in the face of rising interest rates and a dynamic political environment. We believe both the institutional and retail prime obligations funds will remain attractive short-term investment options for investors seeking higher yields on cash positions while still assuming minimal credit risk. Yields in the agency and Treasury space will remain influenced by Fed policy as well as the strong demand from investors in this space. We will continue to seek opportunities – in all asset classes – that arise from market volatility based on domestic and global economic data and Fed rate expectations.

For more information about the portfolio holdings, please visit
https://www.firstamericanfunds.com/home/portfolio-holdings.aspx.

Sources

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Fox Business, "Tax Reform Rewards: JetBlue Joins Southwest Airlines, Others in Giving Bonuses to Workers", January 4, 2018

Definitions

Basis Point (bps) is one one-hundredths of a percentage point. This term is often used in describing changes in interest rates. For example, if a bond yield increases from 7.50% to 7.88%, it has moved up 38 basis points.
Federal Funds Rate (fed funds rate) is the interest rate at which a depository institution lends immediately available funds (balances at the Federal Reserve) to another depository institution overnight.
Federal Reserve (Fed) is the United States central banking system. It is comprised of 12 regional central banks, known as the Federal Reserve Banks, which are owned by private banks. The Fed is governed by a 7-member Board of Governors, who regulates interest rates, availability of bank credit and sets other monetary policies such as legal reserve requirements for banks.
Fed Reverse Repo Facility is a repo program in which the Fed sells Treasury or agency securities to approved counterparties with an agreement to repurchase them back from the same counterparties at a specified price and date in the future.
ICE BofA Merrill Lynch 1-3 Year AAA-A U.S. Corporates & All Yankees Index is a subset of the BofA Merrill Lynch US Corporate & Yankees Index including all securities with a remaining term to final maturity less than three years and rated AAA through A3, inclusive.
ICE BofA Merrill Lynch 1-3 Year BBB U.S. Corporates & All Yankees Index is a subset of the BofA Merrill Lynch US Corporate & Yankees Index including all securities with a remaining term to final maturity less than three years and rated BBB through B3, inclusive.
ICE BofA Merrill Lynch 1-5 Year AAA-A U.S. Corporates & All Yankees Index is a subset of the BofA Merrill Lynch US Corporate & Yankees Index including all securities with a remaining term to final maturity less than five years and rated AAA through A3, inclusive.
ICE BofA Merrill Lynch 1-3 Year U.S. Treasury Index is a subset of the BofA Merrill Lynch U.S. Treasury Index including all securities with a remaining term to final maturity less than three years.
ICE BofA Merrill Lynch 1-5 Year U.S. Treasury Index is a subset of the BofA Merrill Lynch U.S. Treasury Index including all securities with a remaining term to final maturity less than five years.
Inflation is defined as a sustained increase in the general level of prices for goods and services. It is measured as an annual percentage increase. As inflation rises, every dollar you own buys a smaller percentage of a good or service.
Laddering is a technique for reducing the impact of interest rate risk by stucturing a portfolio with different bond issues that mature at different dates.
LIBOR (London Interbank Offered Rate) is the interest rate at which banks can borrow funds from other banks in the London interbank market. It is the world's most widely used benchmark for short-term interest rates.
LIBOR Rates are rates that the most creditworthy international banks dealing in eurodollars charge each other for large loans. The LIBOR rate is usually the base for other large eurodollar loans to less creditworthy corporate and government borrowers.
Maturity is the date on which the principal amount of a note, draft, acceptance, bond, or other debt instrument becomes due and payable. Also, termination or due date on which an installment loan must be paid in full.
Monetary Policy is the actions of a central bank, currency board or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.
NASDAQ Composite Index is an unmanaged index which tracks all common stocks listed on the NASDAQ and is used primarily to track technology stocks.
Personal Consumption Expenditures Index is a measure of price changes in consumer goods and services. It is essentially a measure of goods and services targeted toward individuals and consumed by individuals.
SIFMA is the Securities Industry and Finamcial Markets Association, a United States based trade group representing banks, brokerages and asset management firms.

S&P 500 Index is an unmanaged index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

Treasury is negotiable debt obligation of the U.S. government, secured by its Full Faith and Credit and issued at various schedules and maturities. The income from Treasury securities is exempt from state and local, but not federal, taxes.

U.S. Treasury Note is a marketable U.S. government debt security with a fixed interest rate and a maturity between one and 10 years. Treasury notes can be bought either directly from the U.S. government or through a bank.

U3 Unemployment Rate is the commonly-referred to unemployment rate. It includes people out of work who have been actively seeking employment over the last four weeks.

U6 Unemployment Rate is the group of people who are unemployed but marginally attached to the workforce, meaning they are available to work but not looking, or who work part-time when they wish to be working full time.

Variable Rate Demand Note (VRDN) is a debt instrument that represents borrowed funds that are payable on demand and accrue interest based on a prevailing money market rate, such as the prime rates. The interest rate applicable to the borrowed funds is specified from the outset of the debt and is typically equal to the specified money market rate plus an extra margin. Also referred to as a variable rate demand obligation (VRDO).

Weighted Average Life, also known as Weighted Average Final Maturity, (WAL) is the average time to maturity of all the securities held in the portfolio, weighted by each security's percentage of total investments. Unlike WAM, the WAL calculation takes into account the final maturity date for each security held in the portfolio. WAL measures a fund's sensitivity to potential credit spread changes.

Weighted Average Maturity (WAM) is the average time to maturity of all the securities held in the portfolio, weighted by each security's percentage of total investments. This calculation takes into account the final maturity date for a fixed income security and the interest rate reset date for a floating rate security, which is allowed by Rule 2a-7 provisions. WAM measures a fund's sensitivity to interest rate changes.

Yield Curve is a line tracing relative yields on a type of bond over a spectrum of maturities ranging from three months to 30 years.

The information and views expressed are provided by the funds' portfolio manager(s) and are current only through the date on this report. They are not intended to provide specific advice or to be construed as an offering of securities or a recommendation to invest. One cannot invest directly in an index. This information is subject to change at any time based on upon market or other conditions and may not be relied on as a forecast of future events or a guarantee of future results. Fund holdings, sector and portfolio allocations are subject to change at any time and are not recommendations to buy or sell any security. **Past performance does not guarantee future results.**

Mutual Fund Investing Involves Risk. *Investors should carefully consider the fund's investment objectives, risks, charges and expenses before investing. The prospectus contains this and other information: call 800-677-3863 or visit www.FirstAmericanFunds.com for a copy. Please read it carefully before investing.*

For U.S. Treasury, Treasury Obligations and Government Obligations – *You could lose money by investing in the Fund. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time.*

For Retail Prime Obligations and Retail Tax-Free Obligations – *You could lose money by investing in the Fund. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. The Fund may impose a fee upon sale of your shares or may temporarily suspend your ability to sell shares if the Fund's liquidity falls below required minimums because of market conditions or other factors. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time.*

For Institutional Prime Obligations – *You could lose money by investing in the Fund. Because the share price of the Fund will fluctuate, when you sell your shares they may be worth more or less than what you originally paid for them. The Fund may impose a fee upon sale of your shares or may temporarily suspend your ability to sell shares if the Fund's liquidity falls below required minimums because of market conditions or other factors. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time.*

Income from tax-exempt funds may be subject to state and local taxes and a portion of income may be subject to the federal and/or state alternative minimum tax for certain investors. Federal income tax rules will apply to any capital gains distribution.

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